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Increasing Sales Performance Based On Integration Knowledge Management, Intellectual Capital and Product Innovation: Study of SMEs in the City of Tangerang, Banten Province, Indonesia

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Abstract:
The aims of this study are analyzing the influence of knowledge management and intellectual capital against sales performance through product innovation as the intervening variables on SME_S as partially and Simultaneously. The research type is a causal research to obtain evidences of causal relationships with a sample of 98 respondents as business owners SMES. The sampling technique used purposive sampling with questionnaires as the instrument to collect data whose result processed using method Scala Likert Summated Rating (LSR) with score 1 – 5. This research used technique of path analysis using Smart PLS. The results of this hypothesis indicated the knowledge management has a positive and significant against sales performance through product innovation (CR 10,674>1,96), intellectual capital has a positive and significant against sales performance through product innovation (CR 2,349>1,96), and knowledge management dan intellectual capital has a positive and significant influence on sales performance through product innovation, obtained the result of CR 6,480 (>1,96). The contribution of knowledge management and intellectual through product innovation against sales performance by 91,0%.The contribution of knowledge management and intellectual against product innovation by 78,5%.

Keywords: Sales performance, product innovation, knowledge management, intellectual capital

1. Introduction

Small and Medium Enterprises (SMEs) have a very important role for the nation's economy. SMEs are considered a strong and resilient business in the face of economic turmoil. SMEs have enormous potential and opportunities to grow and develop. In fact, when the national economy is experiencing a slowdown and public purchasing power is declining, SMEs are growing rapidly and are able to open up new employment opportunities for creative and innovative communities.

The contribution of the SMEs sector to gross domestic product has intensified in the past five years. The Ministry of Cooperatives and SMEs noted that the contribution of the SME sector increased from 57.84% to 60.34%. Not only that, the SME sector has also helped absorb employment in the country. Absorption of labor in the SME sector grew from 96.99% to 97.22% in the last five years period (CNN Indonesia.com, 11-21-2016, accessed March 21, 2018). The number of SMEs in Tangerang City in 2016 recorded 10 thousand units, up to the first quarter of 2017 there were 10,553 units or an increase of 553 units of SMEs. As for a number of SME products, Tangerang City has penetrated the international market, encouraging other citizens to become entrepreneurs. (Neraca.co.id, accessed, March 21, 2018).

With these capabilities, SMEs in Tangerang City have enormous potential and opportunities to grow and develop. But SMEs cannot be separated from various problems. Problems often experienced by SMEs can be influenced by several factors, namely internal and external factors, one of which is caused by low human resources, weak management of innovation in creating product ideas, weak management, lack of mastery of competitive technology use, and weakness in developing market networks. Because in managing SMEs requires management skills that are different from corporate management that is already so complex.

Intellectual capital is the main thing for business development in the future (Dristianto & Rodhiyah, 2016). Intellectual Capital provides strong and new sources where organizations find the strength to compete with their competitors. This capital motivates increased business in seeking and using knowledge and information (Bontis & Serenko, 2009). In order to survive, growing in the tight competition is determined by SMEs businesses in the City of Tangerang in managing knowledge and intellectual capital so that it fosters creative ideas to create a product innovation which impacts on sales performance.

Knowledge sharing is able to encourage the ability of human resources to innovate. (Mulyana & Wasitowati, 2015). Innovation as a successful application of creative ideas in the company. Innovation is a corporate mechanism to adapt in a dynamic environment. Therefore, companies are required to be able to create new judgments and ideas and offer innovative products. Innovation is a process for making changes, large and small, directly suddenly and gradually little by little, to produce, process, and serve whose results will introduce something new to the organization and will add value to customers and contribute to adding new knowledge in organization (Al-Ansaari, et. al, 2013, 2014; Forsman, 2013; Augusto, et al. 2014; Jayaram, et. al., 2014; Pervan, et. al, 2015).

Some empirical studies have proven that knowledge management has a significant effect on organizational performance (Choi, et al., 2008), innovation performance (Liao & Wu, 2010) and competitive advantage (Masa & Testa, 2009). Knowledge management also proved to have a significant effect on new product development strategies and new product development performance (Liu, et al., 2005). Intellectual capital has an effect on improving the performance of SMEs (Zuliyati & Delima, 2017, Hudgins 2014) through innovation (Dristianto & Rodhiyah, 2016; Maboudi, et al., 2015; Indriastuti & Arifah, 2012) and Herwawan (2015) prove there is integration between knowledge management and intellectual capital towards improving performance.

The formulation of the problem in this study is whether knowledge management and intellectual capital affect the increase in sales performance through product innovation as an intervening variableas partially and Simultaneously? In accordance with the background and questions stated, the purpose of this study is to determine the effect of knowledge management, intellectual capital on improving sales performance through product innovation as an intervening variable as partially and Simultaneously.

2. Methods

The approach used in this study is quantitative research, which is a research method based on the philosophy of positivism, used to examine certain populations or samples, data collection using research instruments, quantitative / statistical data analysis, with the aim of testing the predetermined hypothesis (Sugiyono, 2014). The type of research used is causal research.

The type of data used in this study is primary data. Primary data is the data obtained by researchers from the first source, either individuals or individuals such as the results of interviews or filling out questionnaires that are usually carried out by researchers. To obtain these data, researchers distributed questionnaires to SME business people located in Tangerang City, Banten Province. The statements in the questionnaire were made using the semantic Likert scale range 1-5. The sampling technique used in this study is through a non-probability sampling approach, namely purposive sampling. The sample requirements in this study are SME businesses located in the area of Tangerang City, Banten Province. The number of samples taken in this study uses 98 samples.

Variable	Indicators	Sources
Knowledge Management (ξ_1)	Knowledge Creation (KM1)	(Sveiby, 2001, Edvinsson & Malone, 1997)
	Knowledge Sharing (KM2)	
	Knowledge Implementation (KM3)	
Intellectual Capital (ξ_2)	Human Capital (IC1)	(Tom Stewart in Paul L. Tobing, 2007).
	Structural Capital (IC2)	
	Customer Capital (IC3)	
Product Innovation (η_1)	A completely new product (IP1)	(Lukas & Ferrell ,2000)
	New Products (IP2)	
	Line Expansion (IP3)	
Sales Performance (η_2)	Sales Growth (KP1)	(Kim & Choi, 1994; Lee & Miller, 1996; luo, 1999; Miles, et. al., 2000; Hadjimanolis, 2000).
	Revenue Growth (KP2)	
	Labor Growth (KP3)	
	Market Share Growth (KP4)	

Table 1: Research Variables and Indicators

3. Result

3.1. Evaluation of Measurement Models (Test Validity And Reliability)

This evaluation includes two stages, namely an evaluation of convergent validity and discriminant validity.

3.1.1. Evaluation of Convergent Validity

If the value of the loading factor is> 0.70. Whereas if the value of the loading factor is ≤ 0.70; then the indicator is removed from the model. The following is an evaluation of the measurement model for the validity of the indicator.
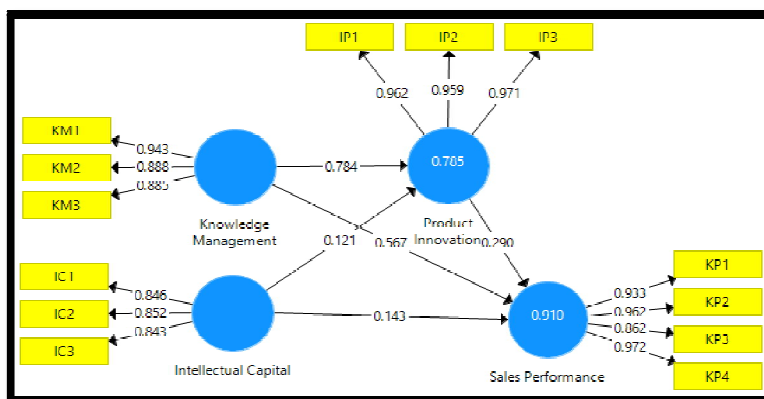
Figure 1: PLS Algorithm Output

Based on Figure 1 and Table 2, all indicators have a value of loading factor> 0.70; then all indicators are declared valid.

Indicators	Loading Factor	Indicators	Loading Factor
KM1 <– Knowledge Management	0,943	IP1 <– Product Innovation	0,962
KM2 <– Knowledge Management	0,888	IP2 <– Product Innovation	0,959
KM3 <– Knowledge Management	0,885	IP3 <– Product Innovation	0,971
IC1 <– Intellectual Capital	0,846	KP1 <– Sales Performance	0,933
IC2 <– Intellectual Capital	0,852	KP2 <– Sales Performance	0,962
IC3 <– Intellectual Capital	0,843	KP3 <– Sales Performance	0,862
		KP4 <– Sales Performance	0,972

Table 2: Loading Factor Indicators
Source: Primary Data Processed (2019)

The next evaluation of convergent validity is construct reliability by looking at the composite reliability value and the Cronbach's alpha value. If the composite reliability value is> 0.70 and the Cronbach's alpha value is> 0.50; then the construct is declared reliable.

Constructs	CompositeReliability	Cronbach'sAlpha
Knowledge Management	0,932	0,890
Intellectual Capital	0,884	0,819
Product Innovation	0,975	0,962
Sales Performance	0,964	0,950

Table 3: Composite Reliability and Cronbach's Alpha
Source: Primary Data Processed (2019)

Based on Table 3, all constructs have a composite value> 0.70 and Cronbach's alpha value> 0.50; it can be stated that all constructs are reliable. The last evaluation of convergent validity is to see the average variance extracted (AVE) value.

Construct	AVE
Knowledge Management	0,820
Intellectual Capital	0,717
Product Innovation	0,929
Sales Performance	0,871

Table 4: Average Variance Extracted (AVE)
Source: Primary Data Processed (2019)

Based on Table 4, all the average variance extracted (AVE) values of constructs> 0.50; it can be concluded that all constructs have good convergent validity.

3.12. Evaluation of Discriminant Validity

Discriminant validity evaluation is done by looking at the value of cross loadings. The criterion in cross loadings is that each indicator that measures its construct must correlate higher with its construct than other constructs. Based on Table 5, all indicators have good discriminant validity, because it correlates higher with each construct compared to other constructs.

	Knowledge Management	Intellectual Capital	Innovation Product	Sales Performance
KM1	0,943	0,779	0,924	0,937
KM2	0,888	0,719	0,778	0,749
KM3	0,885	0,715	0,676	0,852
IC1	0,569	0,846	0,473	0,499
IC2	0,612	0,852	0,496	0,535
IC3	0,805	0,843	0,828	0,907
IP1	0,896	0,737	0,962	0,890
IP2	0,797	0,718	0,959	0,837
IP3	0,857	0,745	0,971	0,870
KP1	0,906	0,774	0,878	0,933
KP2	0,865	0,794	0,898	0,962
KP3	0,826	0,703	0,649	0,862
KP4	0,905	0,805	0,908	0,972

Table 5: Cross Loadings
Source: Primary Data Processed (2019)

3.2. Evaluation of Goodness of Fit (GoF)

To evaluate GoF in this study, the final R2 value is needed from the R Square table. Evaluasi Goodness of Fit (GoF)

Konstruk	R-Square (R^2)
Innovation Product	0,785
Sales Performance	0,910

Table 6: R Square
Source: Primary Data Processed (2019)

The construct R2 value of product innovation is 0.785; meaning that the construct of knowledge management and intellectual capital simultaneously can explain the variability of constructs of product innovation by 78.5%, the remaining amount of 21.5% is not examined in this study. The value of R2 constructs sales performance is 0.910; meaning that the construct of product innovation, knowledge management and intellectual capital is able to explain sales performance by 91.0%, the remaining 9.0% is not examined in this study.After processing the data above, it can do the overall model validation, which is seen from the Goodness of Fit (GoF). GoF values range from 0 to 1 with interpretations of values: 0.1 (small GoF), 0.25 (moderate GoF), and 0.36 (large GoF). GoF values obtained are 0.729 and 0.890. It can be concluded, overall the structure model is fit.

3.3. Evaluation of Structural Models (Hypothesis Test)

The first step is to see the correlation between constructs based on the results of the following Latent Variable Correlations.

Correlation between Constructs	Value
Knowledge Management with Sales Performance	0,939
Intellectual Capital with Sales Performance	0,826
Knowledge Management with Product Innovation	0,883
Intellectual Capital with Product Innovation	0,761
Product Innovation with Sales Performance	0,899

Table 7: Value of Correlation between Constructs

To see the significance of the path relationship between constructs, the value of the path count is shown as Figure 2.
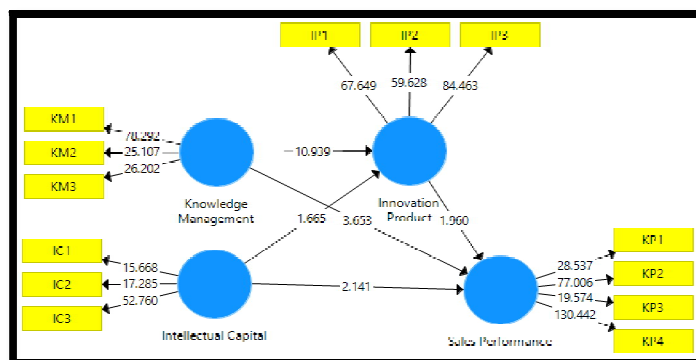

Figure 2: CR Path Relationships

Based on Figure 2 and Table 6, to see the relationship of the path is significant, that is by comparing with t count with t table, significant if t count> t table; t table α 0.05 = 1.96 and t table α 0.10 = 1.645.

Direct Effects	Path Coefficients	CR	P Value	Keterangan
Knowledge Management -> Sales Performance	0,567	3,653	0,001	Signifikan
Intellectual Capital -> Sales Performance	0,143	2,141	0,039	Signifikan
Knowledge Management -> Product Innovation	0,784	10,939	0,000	Signifikan
Intellectual Capital -> Product Innovation	0,121	1,665	0,096	Signifikan
Inovasi Produk -> Sales Performance	0,290	1,960	0.001	Signifikan
Indirect Effects				Signifikan
Knowledge Management -> Product Innovation -> Sales Performance	0,227	1,787	0,074	Signifikan
Intellectual Capital -> Product Innovation -> Sales Performance	0,035	1,093	0,280	Tidak Signifikan
Total Effects				
Knowledge Management -> Product Innovation ->Sales Performance	0,794	10,674	0,000	Signifikan
Intellectual Capital -> Product Innovation -> Sales Performance	0,178	2,342	0,020	Signifikan
Knowledge Managementand Intellectual Capital -> Product Innovation->Sales Performance	0,972	6,395	0,000	Signifikan

Table 8: Path Relationships between Constructs
Source: Primary data processed (2019)

To find CR the total indirect effect is by estimating SE by using S.E Bootstrapping method so that CR can be calculated.

$$CR = \frac{\text{Total Estimasi}}{\text{STDEV}} = \frac{0{,}794+0{,}178}{0{,}076+0{,}076} = \frac{0{,}972}{0{,}152} = 6{,}395$$

CR = 6.840 (t count> 1.96) shows that the relationship between knowledge management and intellectual capital has a positive and significant effect on sales performance through intervening product innovation.

4. Discussion

4.1. The Effect of Knowledge Management on Increasing Sales Performance through Intervening Product Innovation

Knowledge management towards increasing sales performance through intervening product innovation has a t count value of 10.674 (> 1.960), meaning that hypothesis 5 is accepted. This is in line with the research of Darroch J (2005), Puryantini, et al (2017) and Rofiaty, et al. (2015). Knowledge is seen as an important weapon to achieve sustainable competitive advantage and marks the birth of a new economic era, namely the era of knowledge-based economy which is indicated by the increasingly widespread knowledge-based competition. Knowledge as the fundamental basis of competition (Agarwal, et al, 2012) and especially knowledge can be a source of excellence because unique is not perfect, cannot be perfectly imitated and cannot be substituted. But management of knowledge itself does not guarantee strategic advantage (Zack, 2002); on the contrary, this knowledge must be managed. This change in the paradigm from resource-based view to knowledge management requires companies to further improve the management and use of all the knowledge held by companies and their employees (Tobing, 2007).

Knowledge management programs are usually related to organizational goals and are directed to achieving specific results, such as sharing intelligence, improving performance, increasing competitive advantage, or encouraging innovation in higher directions (Nonaka and Takeuchi (1995). In such a context, economic based knowledge is no longer just relying on natural resources, but rather a resource of knowledge, ideas and creativity. Theenvironmental change also requires companies to be more proactive and innovative, innovation is considered an important mechanism to be more competitive and to survive in the world of global business (greetings and Storey, 2002).

4.2. The Effect of Intellectual Capital on Increasing Sales Performance through Intervening Product Innovation

The management of intellectual capital and product innovation in small and medium enterprises will provide tangible benefits to the performance of business sales. This is evidenced by the result of t count of 2,349 (> 1.96), so hypothesis 7 is accepted. Thus, intellectual capital has a positive and significant effect on sales performance through intervening product innovation, which means that the higher the intellectual capital and the more innovative the business is carried out, the more sales will be increased.

This research is in line with the research of Dristianto & Rodhiyah (2016). The management of intellectual capital and product innovation in small and medium enterprises will provide tangible benefits and become the foundation for businesses to be able to improve the performance of SME business sales. Because management of intellectual capital is the main thing for future development. In an economic change characterized by a knowledge-based economy, business people

are required to always carry out management of science. Management of intellectual capital can provide benefits for a small and medium business, in growing product innovation which has an impact on SME sales performance.

Tangerang City SME business actors are aware of the importance of product innovation for business continuity. Product innovations carried out such as motif, color, taste, design, packaging, new techniques. If you do not innovate, it is feared that consumers will feel bored, so that stagnant sales can even decrease.

4.3. The Effect of Knowledge Management and Intellectual Capital on Sales Performance Improvement through Intervening Product Innovation

There is a positive and significant influence between knowledge management and intellectual capital simultaneously to increase sales performance through product innovation with a t count value of 6.480 (> 1.96), thus hypothesis 8 is accepted. The research conducted by Hermawan et al. (2015) has intellectual capital integration and knowledge management on the business performance of pharmaceutical companies.

Hermawan (2015) states that IC and KM integration can affect the company's business performance. Interaction between IC components (human capital, structural capital, relational capital) proved to be mutually influential. Similarly, the interaction between KM enablers and KM created process. Finally, the interaction between IC and KM and business performance has proven to be influential. This provides evidence that ICs and KMs can be integrated to improve the business performance of pharmaceutical companies in East Java. Some research results state that IC is crucial and influences business performance, company added value, organizational effectiveness, competitiveness, and creating prosperity (IFAC 1998; Bontis 1998; Belkaoui 2003; Mageza 2004; Chen et al. 2004; Cabrita et al. 2007; Sharabati et al. 2010; Khalique et al. 2011 in Hermawan, 2015). Likewise, with the influence of knowledge management (KM) on business performance and organizational effectiveness (Choi 2002; Kasim 2008 in Hermawan, 2015). This means that indeed both (IC and KM) have an important role in various activities in the company both strategic and operational activities. However, the important role of IC and KM has not been widely known, identified, and has not even been used properly. Zhou and Fink (2003) in Hermawan (2015) stated that IC and KM need to be integrated because both of them are proven to be able to increase added value for the company and improve organizational effectiveness (Hsu, 2006 in Hermawan, 2015).

The relationship between KM and innovation, and the relationship between organizational performance innovations developed based on the RBV theory. In the theory of RBV it is said that knowledge is a major asset other than the one that is tolerable in an organization. The success of an organization depends on knowledge management in dealing with environmental changes. The ability to adapt to changes in the environment will enhance innovation and organizational performance. science and technology are created from individual knowledge that must be managed to become knowledge of the company, which ultimately becomes the asset of SMEs company assets.

Intellectual capital is an important resource and a capability to act on knowledge and ability to know. Hermawan (2015) proves that companies that have strong structural capital will have a culture that makes company employees to try new things, innovative, creative, and not afraid to fail (Bontis 1998 in Hermawan, 2015). By allowing employees to create, innovate and try new things, it will make the performance of relational capital to be increased or positively related. Human capital influences performance. Human capital is defined as a set of intangible resources embedded in each individual organization (Bontis, 1999 in Hermawan, 2015), must be combined with one another. The combination of capability, competency, satisfaction, and sustainability of employees will create human capital productivity so that it can motivate employees to achieve company goals that will ultimately have an impact on performance.

Based on this research the results of the determination test (R2) of 0.971 were obtained. This indicates that knowledge management, intellectual capital and product innovation provide a very large contribution of 97.1% to the sales performance of Tangerang City SMEs. To improve the sales performance of Tangerang City SMEs businessmen, the Tangerang City Government through the related services, namely the Office of Cooperatives and SMEs and the Industry and Trade Service has an agenda every year to provide training and knowledge to SMEs in the Tangerang City area in addition to being able to always innovate so that SME businesses can survive in the global world market. SMEs entrepreneurs can introduce their products at the Tangerang Expo and Cisadane Festival exhibitions.

5. Conclusion and Implication

5.1. Conclusion

The results showed that (1) knowledge management had a positive and significant effect on improving sales performance mediated by product innovation (2) intellectual capital has a positive and significant effect on improving sales performance mediated by product innovation; (3) knowledge management and intellectual capital simultaneously have a positive and significant effect on improving sales performance mediated by product innovation.

7.2. Implication

Based on the conclusions and discussions obtained from the results of the study, the researchers tried to provide input that could be used as reference material for business actors and agencies / agencies related to SME businesses. Some of the inputs that the researcher wants to convey are as follows:

- SMEs business actors need to continue to improve their knowledge and skills in accordance with their type of business, this can be obtained through their participation in training held by the Tangerang City Government through related agencies or other agencies

- SMEs business actors should look for information about products or colors, design, engineering, packaging, taste that will trend in the coming year. This information can be obtained through relationships / business partners, consumers, or even through social media.
- SMEs business actors must begin to care about knowledge management and intellectual capital in their business because it can foster the creation of new innovation ideas in producing new products so as to increase sales of their businesses.
- SMEs business actors should attend exhibitions both held by the Tangerang City Government each year (Tangerang Expo, Cisadane Festival, etc.) as well as exhibitions outside Tangerang City so that the results of their business products are known to the public and the marketing is growing and widespread.

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